

CREATIVE TECHNOLOGY LTD

SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2011 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2011

1 CONSOLIDATED INCOME STATEMENT

	GROUP		GROUP	
	Three months ended 31 December		Half year ended 31 December	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Sales, net	59,547	69,289	109,903	126,516
Cost of goods sold	47,429	51,529	88,879	94,721
Gross profit	12,118	17,760	21,024	31,795
Expenses:				
Selling, general and administrative	(11,779)	(15,988)	(25,598)	(30,160)
Research and development	(9,557)	(15,536)	(21,959)	(32,156)
Total expenses	(21,336)	(31,524)	(47,557)	(62,316)
Other income	58	190	248	357
Other (losses) gains, net	(23,621)	2,625	(34,978)	15,737
Share of losses of associated companies	(996)	(233)	(1,969)	(233)
Interest expense	(10)	(21)	(21)	(41)
Loss before income tax	(33,787)	(11,203)	(63,253)	(14,701)
Income tax (expense) credit	(77)	351	(178)	235
Net loss	(33,864)	(10,852)	(63,431)	(14,466)
Attributable to:				
Equity holders of the Company	(33,855)	(10,866)	(63,458)	(14,484)
Non-controlling interests	(9)	14	27	18
Loss per share for loss attributable to equity holders of the Company				
- Basic (US\$ per share)	(0.49)	(0.16)	(0.91)	(0.21)
- Diluted (US\$ per share)	(0.49)	(0.16)	(0.91)	(0.21)

1(a) Net loss is arrived at after accounting for:

	GROUP			
	Three months ended		Half year ended	
	31 December		31 December	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Depreciation and amortization	(673)	(1,806)	(2,372)	(3,642)
(Write-off/write-down for inventory obsolescence) / Reversal of write-off/write-down for inventory obsolescence	(2,148)	256	(6,490)	318
Impairment loss on investments	(40)	(145)	(3,093)	(382)
Foreign exchange (loss) gain	(1,488)	2,559	(10,185)	15,770
Impairment loss on property and equipment and intangible assets	(15,639)	-	(15,639)	-
Provisions for commitments and obligations	(6,489)	-	(6,489)	-

2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP			
	Three months ended		Half year ended	
	31 December		31 December	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Net loss	(33,864)	(10,852)	(63,431)	(14,466)
Other comprehensive income:				
Net fair value changes of financial assets, available-for-sale	423	1,348	(5,874)	6,511
Total comprehensive income for the period	<u>(33,441)</u>	<u>(9,504)</u>	<u>(69,305)</u>	<u>(7,955)</u>
Attributable to:				
Shareholders of the Company	(33,432)	(9,518)	(69,332)	(7,973)
Non-controlling interests	(9)	14	27	18
Total comprehensive income for the period	<u>(33,441)</u>	<u>(9,504)</u>	<u>(69,305)</u>	<u>(7,955)</u>

3 BALANCE SHEETS

	Group		Company	
	31 December 2011 US\$'000	30 June 2011 US\$'000	31 December 2011 US\$'000	30 June 2011 US\$'000
ASSETS				
Current assets:				
Cash and cash equivalents	135,879	162,958	118,645	148,693
Trade receivables	30,643	27,508	8,988	8,059
Amounts due from subsidiaries	-	-	46,020	37,424
Inventories	32,230	44,089	16,456	23,425
Other current assets	18,511	22,642	4,179	5,966
	217,263	257,197	194,288	223,567
Non-current assets:				
Financial assets, available-for-sale	28,028	36,476	-	-
Other non-current receivables	148	460	-	-
Amounts due from subsidiaries	-	-	202,737	194,391
Investments in associated companies	-	322	-	-
Investments in subsidiaries	-	-	30,790	30,790
Property and equipment	16,813	26,088	695	920
Intangible assets	2,232	5,862	-	-
Other non-current assets	11,269	15,600	1,443	1,422
	58,490	84,808	235,665	227,523
Total assets	275,753	342,005	429,953	451,090
LIABILITIES				
Current liabilities:				
Trade payables	23,449	20,629	16,741	15,203
Amounts due to subsidiaries	-	-	32,856	29,312
Accrued liabilities and provisions	63,436	60,662	25,944	28,668
Current income tax liabilities	722	790	-	-
	87,607	82,081	75,541	73,183
Non-current liabilities:				
Amounts due to subsidiaries	-	-	21,146	21,149
Deferred income tax liabilities	17,902	17,902	-	-
	17,902	17,902	21,146	21,149
Total liabilities	105,509	99,983	96,687	94,332
NET ASSETS	170,244	242,022	333,266	356,758
EQUITY				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(18,658)	(18,362)	(18,658)	(18,362)
Fair value reserve	9,711	15,585	-	-
Other reserves	65,227	64,629	37,763	37,165
Retained earnings	(153,474)	(87,241)	47,408	71,202
	169,559	241,364	333,266	356,758
Non-controlling interests	685	658	-	-
Total equity	170,244	242,022	333,266	356,758

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Half year ended 31 December	
	2011	2010
	US\$'000	US\$'000
Cash flows from operating activities:		
Net loss	(63,431)	(14,466)
Adjustments for:		
Income tax expense	178	(235)
Depreciation of property and equipment	2,133	3,418
Amortisation of intangible assets	239	224
Employee share-based expenses	626	1,946
Share of loss of associated companies	1,969	233
Loss on disposal of property and equipment	62	15
Impairment loss on property and equipment and intangible assets	15,639	--
Impairment loss of financial assets, available-for-sale	3,093	382
Gain on disposal of financial assets, available-for-sale	--	(9)
Deemed gain on dilution of subsidiaries	--	(181)
Currency translation losses (gains)	8,292	(13,388)
Dividend income	(123)	(139)
Interest income	(125)	(218)
Interest expense	21	41
	<u>(31,427)</u>	<u>(22,377)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	(3,135)	(2,416)
Inventories	11,859	(1,755)
Other assets and receivables	7,147	532
Trade payables	2,820	(835)
Accrued liabilities and provisions	2,753	(1,373)
Cash used in operations	<u>(9,983)</u>	<u>(28,224)</u>
Interest received	127	219
Income tax (paid) refunded	(204)	222
Net cash used in operating activities	<u>(10,060)</u>	<u>(27,783)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(5,194)	(3,776)
Proceeds from sale of property and equipment	26	6
Proceeds from investments	481	9
Purchase of financial assets, available-for-sale	(1,000)	(354)
Purchase of investments in associated companies	--	(761)
Dividend received	123	139
Net cash used in investing activities	<u>(5,564)</u>	<u>(4,737)</u>
Cash flows from financing activities:		
Purchase of treasury shares	(322)	--
Proceeds from exercise of ordinary share options	--	170
Dividends paid to equity holders of the Company	(2,775)	(5,354)
Net cash used in financing activities	<u>(3,097)</u>	<u>(5,184)</u>
Net decrease in cash and cash equivalents	(18,721)	(37,704)
Cash and cash equivalents at beginning of financial year	162,958	214,025
Effects of currency translation on cash and cash equivalents	(8,358)	13,398
Cash and cash equivalents at end of the period	<u>135,879</u>	<u>189,719</u>

5 STATEMENTS OF CHANGES IN EQUITY

5(a) Statements of Changes in Equity for the Group

	Share Capital US\$'000	Treasury Shares US\$'000	Fair Value Reserve US\$'000	Other Reserves US\$'000	Retained Earnings US\$'000	Total US\$'000	Non- controlling Interests US\$'000	Total Equity US\$'000
FY2012								
Balance at 1 July 2011	266,753	(18,362)	15,585	64,629	(87,241)	241,364	658	242,022
Purchase of treasury shares	-	(322)	-	-	-	(322)	-	(322)
Utilization of treasury shares for shares issued under employee options plans and performance share plan	-	26	-	(28)	-	(2)	-	(2)
Employee share-based expense	-	-	-	626	-	626	-	626
Dividends paid	-	-	-	-	(2,775)	(2,775)	-	(2,775)
Total comprehensive income (loss) for the period	-	-	(5,874)	-	(63,458)	(69,332)	27	(69,305)
Balance at 31 December 2011	266,753	(18,658)	9,711	65,227	(153,474)	169,559	685	170,244
FY2011								
Balance at 1 July 2010	266,753	(19,122)	13,872	62,285	(34,654)	289,134	642	289,776
Utilization of treasury shares for shares issued under employee options plans and performance share plan	-	225	-	(55)	-	170	-	170
Employee share-based expense	-	-	-	1,946	-	1,946	-	1,946
Dividends paid	-	-	-	-	(5,354)	(5,354)	-	(5,354)
Currency translation difference	-	-	-	-	-	-	2	2
Total comprehensive income (loss) for the period	-	-	6,511	-	(14,484)	(7,973)	18	(7,955)
Balance at 31 December 2010	266,753	(18,897)	20,383	64,176	(54,492)	277,923	662	278,585

5(b) Statements of Changes in Equity of the Company

	Share Capital US\$'000	Treasury Shares US\$'000	Other Reserves US\$'000	Retained Earnings US\$'000	Total Equity US\$'000
FY2012					
Balance at 1 July 2011	266,753	(18,362)	37,165	71,202	356,758
Purchase of treasury shares	-	(322)	-	-	(322)
Utilisation of treasury shares for shares issued under employee options plans and performance share plan	-	26	(28)	-	(2)
Employee share-based expense	-	-	626	-	626
Dividends paid	-	-	-	(2,775)	(2,775)
Total comprehensive loss for the period	-	-	-	(21,019)	(21,019)
Balance at 31 December 2011	266,753	(18,658)	37,763	47,408	333,266
FY2011					
Balance at 1 July 2010	266,753	(19,122)	34,821	115,230	397,682
Utilisation of treasury shares for shares issued under employee options plans and performance share plan	-	225	(55)	-	170
Employee share-based expense	-	-	1,946	-	1,946
Dividends paid	-	-	-	(5,354)	(5,354)
Total comprehensive loss for the period	-	-	-	(11,097)	(11,097)
Balance at 31 December 2010	266,753	(18,897)	36,712	98,779	383,347

5(c) CHANGES IN THE COMPANY'S SHARE CAPITAL

Issued and paid up capital

As at 31 December 2011, the Company's issued and paid up capital excluding treasury shares comprises 69,643,715 (30 June 2011: 69,790,415) ordinary shares.

Employee share options plan

During the second quarter of FY2012, the Company did not issue any ordinary shares for cash upon the exercise of the options under the Company's Share Options Plan (Q2 FY2011: 65,450).

As at 31 December 2011, there were 4,065,517 (31 December 2010: 6,128,647) unissued ordinary shares under options granted to eligible employees and directors under the Company's Employee Share Options Plan.

Employee performance share plan

During the second quarter of FY2012, the Company did not issue any treasury shares pursuant to the Employee Performance Share Plan to eligible employees and directors of the Company and its subsidiaries (Q2 FY2011: Nil).

As at 31 December 2011, there were 1,504,691 (31 December 2010: 2,064,000) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

Treasury shares

The movement of treasury shares for the period is as follows:

	Three months ended	
	31 December	
	2011	2010
Balance at beginning of period	5,356,285	5,425,345
Issue for Employee Stock Options Plan	-	(65,450)
Balance at end of period	<u>5,356,285</u>	<u>5,359,895</u>

6 GROUP BORROWINGS

	GROUP	
	31 December 2011 US\$'000	30 June 2011 US\$'000
Amount repayable:		
<u>In one year or less, or on demand</u>		
Secured	-	-
Unsecured	-	-
	<u>-</u>	<u>-</u>
<u>After one year</u>		
Secured	-	-
Unsecured	-	-
	<u>-</u>	<u>-</u>
Total	<u>-</u>	<u>-</u>

7 NET ASSET VALUE

	GROUP		COMPANY	
	31 December 2011 US\$	30 June 2011 US\$	31 December 2011 US\$	30 June 2011 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	2.44	3.47	4.79	5.11

8 AUDIT

The figures have not been audited or reviewed by our auditors.

9 AUDITORS' REPORT

Not applicable.

10 ACCOUNTING POLICIES

Except as disclosed in Item 11 below, the Group has applied the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting period compared with the audited financial statements as at 30 June 2011.

11 CHANGES IN ACCOUNTING POLICIES

None.

12 REVIEW OF GROUP PERFORMANCE

CONSOLIDATED INCOME STATEMENT

Net Sales

Net sales for the second quarter of FY2012 decreased by 14% compared to the same quarter in FY2011, and net sales for the first half year of FY2012 decreased by 13% compared to the same period in FY2011. Revenue was lower in the second quarter and first half year of FY2012 as the Group continues to be affected by the difficult market for its products, particularly for the personal digital entertainment products.

Gross Profit

Gross profit margin was 20% in the second quarter of FY2012 and 19% in the first half year of FY2012 compared to 26% in the second quarter of FY2011 and 25% in the first half year of FY2011. Gross profit margin in the second quarter and first half year of FY2012 was lower due to write-down of inventories.

Net Loss

Net loss for the second quarter of FY2012 was US\$33.9 million compared to net loss of US\$10.9 million in the second quarter of FY2011. Despite the decrease in sales, there was an improvement in operating results for the second quarter of FY2012 compared to the same period in the prior year. While gross profit was lower by US\$5.6 million, operating expenses comprising selling, general and administrative expenses and research and development expenses decreased by US\$10.2 million in the second quarter of FY2012 compared to the second quarter of FY2011. However the Group's results in the second quarter of FY2012 was negatively impacted by other losses (net) of US\$23.6 million as explained below.

Net loss for the first half year of FY2012 was US\$63.4 million compared to US\$14.5 million in the first half year of FY2011. Sales have decreased and gross profit was lower by US\$10.8 million for the first half year of FY2012 compared to the same period in the prior year, but operating results for the Group has improved due to a decrease in operating expenses by US\$14.8 million. The Group's results in the first half year of FY2012 was negatively impacted by other losses (net) of US\$35.0 million as explained below.

Selling, general and administrative expenses in the second quarter and first half year of FY2012 decreased by 26% and 15%, respectively, compared to the same period in the prior year. The decrease in selling, general and administrative expenses was mainly a result of the cost cutting actions taken in FY2011.

Research and development expenses in the second quarter and first half year of FY2012 decreased by 38% and 32%, respectively, compared to the same period in the corresponding year. The decrease in research and development expenses was mainly a result of cost cutting actions taken in FY2011. The Group will continue to invest in product research and development in areas that are strategic to the Group, cutting back research and development spending only in product areas that are not strategic to the Group.

Depreciation and amortization was US\$0.7 million and US\$2.4 million in the second quarter and first half year of FY2012, respectively, compared to US\$1.8 million and US\$3.6 million in the same periods in the prior year. Depreciation and amortization was lower in the second quarter and first half year of FY2012 due mainly to disposal of a wholly-owned manufacturing subsidiary in China in the fourth quarter of FY2011 and assets being fully depreciated.

Other losses (net) of US\$23.6 million in the second quarter of FY2012 comprised mainly impairment charges of US\$15.6 million for equipment and intangible assets and provisions of US\$6.5 million for commitments for other expenditures and obligations, pertaining to the installation and operation of a wireless broadband network in Singapore by a subsidiary QMax Communications Pte Ltd ("QMax").

At the end of the second quarter of FY2012, QMax suspended the wireless broadband project as the vendor for the equipment has failed to deliver on the key network performance requirements set out in the relevant supply contract. The Company and QMax have given notice to the vendor to terminate or rescind the supply contract on the grounds of material breach of the contract and/or misrepresentations by the vendor. The Company and QMax have also recently initiated legal proceedings against the vendor to recover damages and all losses suffered in relation to the wireless broadband project, after discussions with the vendor failed to reach a satisfactory conclusion. Pending the outcome of the legal proceedings, for the Group's results in the second quarter of FY2012, full provisions have been made for the impairment of equipment and related intangible assets for the project, as well as commitments for other expenditures and obligations to third parties relating to the project. No recognition has been made in the accounts for any recovery of compensation for losses suffered and damages that the Group is seeking from the vendor.

Other gains (net) of US\$2.6 million in the second quarter of FY2011 were due mainly to foreign exchange gains of US\$2.6 million compared to a foreign exchange loss of US\$1.5 million in the second quarter of FY2012.

Other losses (net) of US\$35.0 million in the first half year of FY2012 included impairment charges of US\$15.6 million for equipment and intangible assets, provisions of US\$6.5 million for commitments for other expenditures and obligations as explained above, US\$10.2 million foreign exchange losses and a US\$3.1 million impairment loss on investments due to adverse business conditions in certain investee companies. Other gains (net) of US\$15.7 million in the first half year of FY2011 were due mainly to foreign exchange gains of US\$15.8 million.

The functional currency of the Company and its subsidiaries is predominantly the US dollar and accordingly, gains and losses resulting from the translation of monetary assets and liabilities denominated in currencies other than the US dollar are reflected in the determination of net income (loss). The exchange differences were due mainly to the cash and cash equivalent balances held by the Group. Cash and cash equivalents were held mainly in Singapore dollar, with the balance mainly in US dollar, Euro, British Pound and Japanese Yen. The exchange loss in the first quarter of FY2012 was due mainly to the significant depreciation of Singapore dollar and Euro against the US dollar, and in the second quarter of FY2012, Euro continued to depreciate against the US dollar. The exchange gain in the first quarter of FY2011 was due mainly to the significant appreciation of Singapore dollar and Euro against the US dollar, and in the second quarter of FY2011, Singapore dollar continued to appreciate against the US dollar.

BALANCE SHEETS

The decrease in financial assets, available-for-sale as at 31 December 2011 was due mainly to a US\$5.9 million fair value loss on revaluation of investments as a result of the decline in global stock markets and a US\$3.1 million impairment loss on investments charged in the first quarter of FY2012. The decrease in property and equipment and intangible assets was due mainly to the impairment charges pertaining to the wireless broadband project (as explained above). The decrease in other non-current assets was due mainly to the utilization of security deposit for the payment of the Group's headquarters office building rental. The decrease in inventories was in line with the lower level of sales. The decrease in other current assets was due mainly to a US\$2.2 million decrease in balances due from associated companies and US\$0.8 million decrease in security deposits and prepayments.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash used in operating activities of US\$10.1 million in the first half year of FY2012 (first half year of FY2011: US\$27.8 million) was due mainly to the net loss for the period.

Net cash used in investing activities of US\$5.5 million in the first half year of FY2012 (first half year of FY2011: US\$4.7 million) was due mainly to purchase of equipment.

Net cash used in financing activities of US\$3.1 million in the first half year of FY2012 (first half year of FY2011: US\$5.2 million) was due mainly to dividends paid to equity holders of the Company.

13 VARIANCE FROM PROSPECT STATEMENT

There has been no significant variance in the operating performance of the Group in the second quarter of FY2012 as compared to the prospect statement disclosed in the announcement of results for the first quarter ended 30 September 2011.

14 PROSPECTS

The overall market for the Group's products remains challenging. For the current quarter, the difficult and uncertain market conditions are expected to continue to negatively impact the Group's revenue and gross margins. Revenue is expected to be lower in this current quarter and the Group expects to report an operating loss.

15 DIVIDEND

No dividends have been recommended in the second quarter of FY2012 and no dividends were recommended or declared for the same period last year.

BY ORDER OF THE BOARD

NG KEH LONG
COMPANY SECRETARY
31 JANUARY 2012

CONFIRMATION BY THE BOARD

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the interim financial information for the second quarter and half year ended 31 December 2011 to be false or misleading.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director